



U.S. Department of Justice

*United States Attorney
Eastern District of New York*

AAS
F. #2009R02380

*271 Cadman Plaza East
Brooklyn, New York 11201*

September 29, 2017

BY ECF

The Honorable Ann M. Donnelly
United States District Judge
United States District Court
Eastern District of New York
225 Cadman Plaza East
Brooklyn, New York 11201

Re: United States v. HSBC Bank USA, N.A. and HSBC Holdings PLC
Criminal Docket No. 12-763 (AMD)

Dear Judge Donnelly:

Pursuant to the Court's July 1, 2013 Order directing the government to file quarterly reports regarding the implementation of the deferred prosecution agreement ("DPA") in the above-captioned matter, the government submits this status report.

During the previous quarter, HSBC's corporate compliance monitor (the "Monitor") progressed his work on three fronts as mandated under the DPA, the U.S. Board of Governors of the Federal Reserve System's Cease and Desist Order, and the U.K. Financial Conduct Authority Direction. First, the Monitor continued his work on the Fourth Annual Follow-up Review of HSBC's AML and sanctions compliance program. As part of that effort, the Monitor completed his country reviews of Bahrain, Bermuda, India, Mexico, and the Philippines. He completed on-site testing in Hong Kong and Malta and is preparing to begin on-site testing in South Korea and the UAE. Also, the Monitor conducted a thematic review of the Bank's newly created Financial Crime Risk organization. Further, the Monitor evaluated the Group-level enhancements that HSBC has made to its AML and sanctions compliance program and its compliance program remediation efforts. Though the Monitor's work on the Fourth Annual Follow-up Review is not yet complete, the Monitor has observed that HSBC is continuing to work towards the implementation of a reasonably effective and sustainable AML and sanctions compliance program that is capable of operating in a business-as-usual state. While the Monitor has identified significant control deficiencies, it has noted improvements in certain key areas.

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Second, the Monitor continues to assess HSBC's adoption of the Monitor's recommendations made in conjunction with his Initial Review, First Annual Follow-up Review, Second Annual Follow-up Review, and Third Annual Follow-up Review. The bank has successfully implemented the majority of the Monitor's recommendations but has not implemented others.

Third, the Monitor proposed to HSBC a scope and schedule for the Fifth Annual OFAC Compliance Review Report pursuant to the Board of Governors of the Federal Reserve System's Cease & Desist Order. He also continues to assess HSBC's implementation of those recommendations issued in connection with the previous Annual OFAC Compliance Reviews.

As the DPA is set to expire on December 11, 2017, the government continues to monitor HSBC's compliance with the DPA's terms and is engaged in a dialogue with HSBC and the Monitor regarding the bank's performance with respect to meeting its obligations under the DPA. The government believes that HSBC continues to show a commitment to compliance with the DPA, and is aware of no issues that require the Court's intervention at this time.

Respectfully submitted,

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cc: All Counsel of Record (via ECF)